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# CENTRAL INTELLIGENCE AGENCY

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY  
OF THE UNITED STATES

SUMMARY

1. Both in Europe and in Asia the Communist cause has made marked progress during the past month.

2. The Communist coup in Czechoslovakia does not reflect any sudden increase in Soviet capabilities, or any change in current Soviet policies or tactics, as analyzed in previous issues of this CIA series.

3. The psychological reaction to the Czech coup appears to have been out of all proportion to its actual significance, reflecting both the fear engendered by the inherent economic and military weakness of Western Europe vis-a-vis Soviet power and the revelation of the ease with which a Communist minority can seize power in a traditionally democratic state.

4. The Czech coup has stiffened Western European resistance to Communism, but without the prospect of continuing and effective US support, this tendency might give way to despair and to a rush for the Communist band wagon.

5. The most serious and immediate danger of an extension of Communist influence in Western Europe is the growing possibility of a Popular Democratic Front victory in the forthcoming Italian elections.

6. The position of the Schuman Government in France is becoming increasingly precarious. The Communists will continue to exploit basic economic difficulties to undermine the Schuman Government, or any successor coalition, recognizing that De Gaulle, rather than they, will be the immediate beneficiary.

7. The prospective loss of Manchuria and a renewed inflationary spurt threaten the existence of the Nationalist regime in China as presently constituted.

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Note: This estimate has not been coordinated with the intelligence organizations of the Inter-departmental Advisory Council; an information copy was distributed to them on 9 March. The information herein is as of 6 March 1948.

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**REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY  
OF THE UNITED STATES**

**GENERAL**

**1. POLITICAL.**

Both in Europe and in Asia the Communist cause has made marked progress during the past month. Czechoslovakia has fallen to a Communist coup. In Italy the Communist-dominated Popular Democratic Front has been rapidly winning converts by its skillfully conducted and lavishly financed electoral campaign. The economic trend in France is endangering the Schuman Government. In China the National Government is faced with the prospective loss of Manchuria to Communist military forces and with a renewed inflationary spurt, developments which threaten the existence of the Nationalist regime as presently constituted.

The Communist coup in Czechoslovakia has created widespread apprehension. We do not believe, however, that this event reflects any sudden increase in Soviet capabilities, more aggressive intentions, or any change in current Soviet policy or tactics as analyzed in previous issues of this CIA series. The coup in Czechoslovakia and the Soviet demand for a mutual assistance pact with Finland are consistent with the long recognized Soviet intention to consolidate Communist control in the border states of Eastern Europe as a vital measure of security. The Kremlin for some time has had the capability of consolidating its position in Czechoslovakia. The coup was precipitated by the stubborn resistance of the Czech moderates to continued Communist control of the police force without which the Communists could not win the forthcoming elections. The demands on Finland likewise are a logical step in the completion of the defensive zone and probably had been under consideration for some time. The Czech coup and the demands on Finland, moreover, do not preclude the possibility of Soviet efforts to effect a rapprochement with the West as outlined in CIA 5. In fact, the Kremlin would undoubtedly consider the consolidation of its position in the border states as a necessary prerequisite to any such agreement.

In Western Europe, the Communists continue to concentrate on legal means to gain their objectives rather than on violence and direct action. Their immediate objective still appears to be a victory in the Italian elections. The recent improvement in the prospects of the Popular Democratic Front in these elections constitutes at the moment the most serious danger of an expansion of Communist influence. As long as Communist prospects in Italy remain as favorable as they are today, there is little likelihood that the USSR will resort to more aggressive tactics outside the Satellite areas. In both France and Italy, however, the Communists are actively engaged in organizing potential "action committees" throughout industry and agriculture which could be called upon immediately if the USSR should decide to resort to direct action. These committees appear to be similar to the "action committees" which, in the absence of any military or police resistance, played so effective a part in the Czechoslovak coup.

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The psychological reaction to the Czech coup appears to have been out of all proportion to its actual significance. This is probably a reflection of several factors: (1) the inherent fear in Western Europe, engendered by the basic economic and military weakness of the area, that the advance of Communism and the Soviet armed forces is inevitable. This fear had been quieted by the announcement of the European recovery program but has been revived by the dramatization of Communist methods and capabilities in the Czech coup, even though the peculiar vulnerability of Czechoslovakia had long been recognized; (2) the revelation of the ease with which a Communist minority can seize power in a mature and traditionally democratic state if it has consolidated its position in the Ministries of Interior (Police) and National Defense (the Armed Forces) and in the labor unions. However, it is questionable whether the coup would have succeeded so easily without the threat of Soviet armed forces on the Czech border. The Communists could not at this time carry out a similar coup in either Italy or France, as they do not have control of the police or the armed forces.

The general apprehension resulting from the Czech coup has stiffened, at least temporarily, Western European resistance to Communism. It may help to check the trend toward the Popular Democratic Front in the Italian election campaign. It has already accelerated negotiations for the implementation of Bevin's proposal for a "western union." The Scandinavian countries are showing some signs of questioning their traditional adherence to neutrality. The Austrians are now less anxious for a treaty that would mean the departure of the occupation forces of the Western Powers. Concurrently with the stiffening of resistance, however, the coup has revived the latent sense of Europe's weakness and fostered the belief among Europeans that only timely and continuing US intervention can protect them from the advance of Communism and the Soviet armed forces. Without the prospect of active and effective US support, the present tendency toward stiffer resistance might give way to despair and to a rush for the Communist band wagon.

The situation, however, is still fluid. A definite Soviet policy change undoubtedly awaits the outcome of the Italian elections and a further clarification of the prospects for European economic recovery and for joint action among the Western Powers to stop the advance of Communism. The USSR will undoubtedly continue its present policy until it is convinced that it can make no further progress in Western Europe by measures short of war.

## THE SITUATION IN EUROPE

## 2. THE UNITED KINGDOM.

As a result of the improving prospects for timely aid under the European recovery program, the UK Government has refrained from introducing further measures of retrenchment which it probably had under consideration and which would inevitably have been damaging to Britain's domestic economy and international position. Nevertheless, the rate of outflow of gold and dollar reserves remains alarming. Developments in Czechoslovakia and Finland have stimulated the Government to speed up

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negotiations on a five-power pact—including the UK, France, and the Benelux countries—in line with Bevin's "western union" proposals. There are increasing indications however, that the continental countries regard such a pact of little material value unless backed by the military power of the US.

The reduction of the UK armed forces from 937,000 to 716,000 during the fiscal year April 1948 - April 1949, at a budgetary saving of \$828,000,000, reflects an inescapable need to economize and to return manpower to industry despite the gravity of the international situation. However, the presently planned reductions are probably the last the UK Government will authorize until the international situation improves. The formerly intense public pressure for military retrenchment has largely subsided.

## 3. SCANDINAVIA.

While moving toward increased economic collaboration among themselves and toward a more cooperative role in the European recovery program, the Scandinavian states are differing in the degree to which they will openly align their foreign policies with those of the Western Powers. The Nordic foreign ministers at the recent Oslo meeting agreed to steps which may eventually lead to a customs union and endorsed full cooperation in the European recovery program, but Sweden, supported by Denmark, opposed any departure from a position of "neutrality" with respect to political differences between East and West. Norway, on the other hand, has been gradually moving toward a more open alignment with the Western Powers. Recent events in Czechoslovakia and Finland, noted gravely throughout Scandinavia, have quickened the pro-western trend in Norway and have strengthened the conviction of high military officers in Sweden that their country's foreign policy is unrealistic. The Swedish Government, however, continues to view the international situation as a rivalry of two power blocs, from which Sweden can stand aloof. In this attitude the Swedish Government has widespread popular support.

## 4. FRANCE.

The position of the Schuman Government is becoming increasingly precarious. The recall of the 5,000 franc notes has alienated large segments of the population and militated against the effectiveness of the measures designed to halt inflation and bring out the gold hoards. The continuing rise in prices, unless checked by the Government's recent emergency measures, will surely lead to a new wage-price crisis, instigated by the Communist-dominated General Confederation of Labor (CGT) and supported, of necessity, by the non-Communist *Force Ouvrière*.

If the Schuman Government falls, it will probably be followed by a similar coalition, headed by a Socialist or by the Independent Republican financial expert, Paul Reynaud. A Reynaud cabinet would probably offer the last chance to solve the French economic problems without recourse to De Gaulle, which all parties in the coalition regard as a measure of last resort. De Gaulle will now probably postpone any attempt to come to power until June, when new elections can be held under the terms of the Constitution.

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The Communists appear still to be committed to a policy of exploiting basic economic difficulties as the opportunity arises, recognizing that De Gaulle, rather than they, will be the immediate beneficiary of a collapse of the present coalition. They will probably continue this policy unless the Kremlin orders insurrectionary attempts in France in conjunction with similar operations in Italy.

**5. ITALY.**

The campaign for the crucial April elections is now in full swing. The Communist-dominated "Popular Democratic Front" increased its following during the past month as a result of large expenditures of money, cleverly conceived electoral slogans, continuing economic distress, and a helpful attitude on the part of the USSR. The Communists have apparently had marked success in undermining De Gasperi's position by claiming that they too, if put in power, can obtain the US aid which the vast majority of Italians regard as vital to their recovery. The Communists have likewise benefited from the unilateral Soviet declaration in favor of an Italian trusteeship over the former Italian colonies and from inferences that the USSR might be willing to support the return of Trieste to Italy. The prospects that the Popular Democratic Front will win a plurality, and possibly an absolute majority, have been substantially improved as a result of this effective campaign.

To counteract Communist progress, the Vatican and the Catholic clergy have actively entered the campaign, imposing religious sanctions on those voting for the Popular Democratic Front and enjoining the faithful to be prepared to defend their faith by "material force," if necessary. It is unlikely, however, that the Church alone can reverse the trend toward the Popular Democratic Front. In the final analysis, a reversal of this trend will depend upon whether effective antidotes can be devised to destroy in the minds of the Italian electorate the validity of the Communist slogans, particularly the claim that the voters can bring the Popular Democratic Front into power without losing US aid under the European recovery program.

**6. GERMANY.**

The USSR has virtually completed its campaign to eliminate all overt opposition in the Soviet Zone and has made progress toward the same end in the Soviet sector of Berlin. Strikes and food demonstrations in the US-UK Zone have declined but may recur unless the food shortage is alleviated. The tendency of the Germans to play politics in the recently reorganized Bizonal Economic Council threatens to impair the effectiveness of that organization as an instrument for aiding economic recovery. US-UK-France-Benelux discussions at London, aimed at the integration of western Germany into the European recovery program and at future political and economic stability in western Germany, show promise of resulting in agreement on major objectives.

**7. AUSTRIA.**

During the preliminary meetings of the deputies of the Council of Foreign Ministers (CFM), the USSR has attempted to induce the US, the UK, and France to accept "in

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principle" the Soviet proposals relating to German assets in eastern Austria. The attitude of the Soviet delegate suggests that the USSR desires to reach an agreement on this phase of the Austrian treaty. To date, he has clarified to a limited extent some of the ambiguities implicit in these proposals; he has not indicated, however, that he is prepared to make any substantial concessions to the western allies. It is unlikely, however, that the Kremlin is prepared at the present time to sacrifice its present hold over eastern Austria in order to reach an agreement on the Austrian treaty.

The recent Communist coup in Czechoslovakia, together with evidences of growing Communist strength in Italy, has considerably reduced the enthusiasm of both major Austrian parties for an early treaty settlement. The prospect of a virtual encirclement of Austria by aggressive Soviet Satellite states has emphasized to Austrian leaders the protective value of the continued presence of the occupation forces of the Western Powers. In order to counter Communist propaganda, it is likely that both parties will continue to agitate publicly for a treaty, although on a reduced scale and with reservations. It is also probable that in view of the increasing Communist threat the present two-party coalition will survive the recurrent strains which threaten to disrupt it. The Socialist Party, to an even greater degree than its conservative coalition partner, has consistently resisted the threats and bribes of the USSR as well as of the small Austrian Communist Party and is most unlikely to precipitate a collapse of the Government and new elections in the near future.

## 8. CZECHSLOVAKIA.

The immediate cause of the recent Czechoslovakian crisis was the opposition of the moderate political factions to continued Communist control of the police. The non-Communist elements had manifested growing concern as the date of the May elections drew near and apparently decided on a showdown in the belief that further delay would be fatal. They had, however, seriously underestimated the true extent of Communist penetration. While the Kremlin might have preferred to postpone the crisis until after the April elections in Italy, it nevertheless seized the opportunity to put into effect its long-standing plans for the eventual elimination of Czechoslovak independence. While Czechoslovak political and cultural ties with the West have thus been severed, the nature of the Czech economy is such that the new Communist regime will probably make every effort to maintain for some time the present trade relations with the West. Curtailment of this trade would have a disastrous effect, not only within Czechoslovakia, but in a number of other areas within the Soviet sphere.

## 9. FINLAND.

The Czechoslovak coup produced a sense of apprehension in Finland which admirably served the Kremlin's plans for a Soviet-Finnish pact of friendship and mutual assistance. After some hesitation, the Finns have decided to enter into discussions with Soviet representatives. While initial Soviet demands may include bases on Finnish territory and substantial control over the Finnish armed forces, some degree of compromise appears possible. The Communist position in Finland is not yet as strong as

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it was in Czechoslovakia. Nationalism in Finland is intense and the Communists have only a limited influence in the Government, the labor organizations, the police and the armed forces. Thus Moscow will probably seek to avoid a major Finnish crisis at present, and settle for terms which will prepare the way for ultimate and complete domination at some future date.

THE NEAR AND MIDDLE EAST

10. GREECE.

There have been no decisive developments on the military, economic, or political fronts in Greece during the past month. The army has remained on the defensive in the face of wide guerrilla attacks, the Government and American Mission for the Aid of Greece (AMAG) have just barely contained the strong inflationary forces, and the National Assembly has been the scene of bitter, but inconclusive, partisan clashes. These partisan clashes have adversely affected public morale and threatened the existence of the Government itself. On 26 February, however, Parliament voted a three-months' recess and during this time the Government, ruling by decree, will be able to act with greater dispatch in meeting any new military or economic problems. Any reshuffling of the Cabinet which might take place during this period will probably occur quickly and should not disrupt the operations of the Government.

A sharp increase in military activity may be expected during the coming month. The balance of power has not changed perceptibly during the winter inasmuch as US aid to the Greek Army has been countered by increases in guerrilla personnel and by further supplies of materiel from the Satellites. Immediate victory is not anticipated for either side.

11. PALESTINE.

Effective UN action in Palestine appears unlikely. It is doubtful that the Security Council will be able to agree on a program to enforce partition or that any possible UN force to keep the peace could be sent to Palestine before 15 May, the date categorically set by the UK for giving up the mandate, leaving Palestine without a government. Meanwhile, although responsible Arab leaders have shown signs of adopting a policy of restraint (in the belief that time favors the Arabs during UN reconsideration of the problem), violence will continue in Palestine. Responsible Arab leaders will be unable to curb the actions of the Arab fanatics, while the Jewish extremists may be expected to intensify their terrorist activity, motivated by anti-US as well as anti-British and anti-Arab feeling. The USSR will take advantage of every opportunity, both in the UN and in the Middle East, to embarrass the US.

12. THE ARAB STATES.

The Arab League has completed plans to resist, with its volunteer forces, any attempts to establish a Jewish state in Palestine and has stated that the regular armies of the Arab states will not be employed in Palestine except in the event that a UN force is sent there after British withdrawal.

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The League's measures regarding Palestine include a prohibition of new oil agreements by member states. The future attitude of the Arab states, regarding both new concessions and cancellation of existing oil agreements, will be determined by the policy of the US and the UN on the Palestine issue. The initial Arab reactions to US Representative Austin's statement of the US position before the UN were reasonable and mildly favorable.

**13. IRAN.**

Iran continues its successful resistance to Soviet encroachment, through its own efforts and through US moral and material aid. Following passage of the US arms credit bill in the face of strong Soviet opposition, the Shah informally requested concrete evidence of US willingness to "aid Iran quickly in the event of an emergency," stating that Iran is now committed to a pro-US and anti-Soviet policy. Moreover, many leaders consider Iran's position comparable to that of Greece and Turkey and seek an extension of US assistance. Fearing Soviet reaction, however, Iran has thus far made no formal request to the US which would openly place Iran in the same category with these two countries, but unless further aid is forthcoming, US influence will diminish and Iran will probably turn to an untenable policy of isolationism.

**14. INDIA-PAKISTAN.**

India-Pakistan relations are temporarily quiescent. The sobering effects of Gandhi's assassination still prevail, and military activities in Kashmir are restricted by winter weather. Discussions before the UN Security Council, however, have failed thus far to evolve any satisfactory solution of the Kashmir dispute, which remains a potential cause of general conflict.

**THE FAR EAST**

**15. CHINA.**

The continued existence of the Chinese National Government as presently constituted is becoming increasingly uncertain in the face of the possibility of the loss of Manchuria to the Chinese Communists and the renewed inflationary spurt. Without the delivery of substantial assistance to the Nationalist forces at Mukden, a collapse of the Government's position in Manchuria may occur at any time and will surely occur within the next six months. The prospect of such a collapse already is spreading defeatism among Nationalist civil and military officials. The new Soviet Ambassador will probably resume with Nationalist officials the discussions of the possibility of a compromise peace in the Chinese civil war. The Ambassador was engaged in such discussions several weeks ago in his capacity of military attache. Confronted by these developments, Chiang Kai-shek may be forced to effect a reorganization in the political and military establishments of the National Government in order to strengthen the will to continue the war against the Communists. If, however, the forces desiring compromise gain the upper hand, far-reaching changes in the Government and the Kuo-

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mintang will necessarily follow, including quite possibly Chiang's departure from the political scene.

16. KOREA.

Separate governments, each claiming sovereignty over the entire country, will probably be established within the next few months in the US and Soviet zones in Korea. The UN-observed elections in the US Zone for a "National Assembly of Korea," recently authorized by the UN Interim Committee, will be countered by the adoption, around 15 March, by the North Korean People's Council of its "Draft Provisional Constitution." The adoption of this constitution will probably be followed by a formal proclamation in the Soviet Zone of a "People's Republic of Korea" and by "scare" propaganda centering around the recently unveiled "Korean People's Army." It is doubted that any future government in South Korea could maintain its independence after an early US withdrawal, since the USSR would probably withdraw its forces simultaneously and permit the "Korean People's Army" to overrun the peninsula.

17. INDONESIA.

The principal issue in the forthcoming formal political negotiations between the Netherlands and the Indonesian Republic will be the status of the Republic within the future federated structure of Indonesia. In the Dutch view, the status of the Republic is that of a state within the proposed United States of Indonesia (USI), with sovereignty over all Indonesia remaining with the Netherlands prior to the formation of the USI. Acceptance of this view by the Republic involves its renunciation of an independent army and foreign policy, which may expose the present moderate Republican Government to attack by conservative and radical nationalist extremists. Despite this latter danger, the Republic is expected to accept the Dutch terms in the hope of expediting the establishment of a sovereign USI, free from Dutch control, in which the Republic may eventually achieve preponderant influence.

LATIN AMERICA

18. GENERAL.

The concessions made by the US at the International Trade Organization (ITO) meeting at Havana have induced the majority of the Latin American countries which had insisted upon complete freedom of action with respect to preferential tariffs and quotas to recede from their extreme position, thereby facilitating agreement on the ITO charter. Latin American countries are still expected, however, to make a concerted demand at the Bogotá conference for US economic assistance. They are generally apprehensive that the European recovery program will be seriously detrimental to their economic well-being.

The revival of Argentine-Chilean interest in the Antarctic and Guatemalan-Mexican interest in British Honduras are expected to lead to further efforts to compel non-American powers to relinquish sovereignty over their possessions in the Western Hemisphere. Any aggressive action along these lines at Bogotá and afterwards will pose serious problems for the US in the integration of its hemispheric and European policies.

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